Rebuck

STATE OF NEW JERSEY
Office of the Attorney General
Department of Law and Public Safety
Division of Gaming Enforcement

In the Matter of the Petition of Caesars Entertainment Corporation (CEC), Caesars Entertainment Operating Company, Inc. (CEOC), and Casino Licensees Showboat Atlantic City Operating Company, LLC (Showboat), Bally's Park Place, Inc. (Bally's) and Boardwalk Regency Corporation (BRC) For an Order Seeking Approval of a Material Debt Transaction Pursuant to *N.J.A.C.* 13:69C-4.3(a)	)	ORDER PRN 2341202

It is ordered that the attached letter dated August 30, 2012, by Deputy Attorney General John E. Adams, Jr. regarding the request for approval of a material debt transaction, for the reasons expressed therein, is hereby adopted.

Dated: September 4, 2012

DAVID REBUCK
DIRECTOR

Casino Licensing

Chris Christie
Governor

Kim Guadagno
Lt. Governor

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Division of Gaming Enforcement
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August 30, 2012

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RE: Caesars Entertainment Corporation - Request to Approve Material Debt Transaction (PRN 2341202)

Dear Mr. O'Gara:

By letter petition PRN 2341202 filed on August 20, 2012 and supplemented by letter dated August 21, 2012, Caesars Entertainment Corporation (CEC) and Caesars Entertainment Operating Company, Inc. (CEOC) (Petitioners) request approval for a material debt transaction in order for CEC and/or CEOC and related subsidiaries to issue up to $750 million in 9% Senior Secured Notes due 2020. You have represented in the petition that the proposed transaction will not adversely affect the financial stability of holding companies CEC, CEOC and its casino licensees namely Showboat Atlantic City Operating Company LLC (Showboat), Bally's Park Place, Inc. (Bally's), and Boardwalk Regency Corporation (BRC).

In May 2012, the Division approved a material debt request of CEOC to complete a series of transactions over a specified period of time whereby CEOC's $3.2 billion in debt maturing in 2014 and 2015 would be amended and/or extended (Shelf Approval). This $3.2 billion in debt consisted of a $1.1 billion revolving credit facility maturing January 2014 (Revolver) and approximately $2.1 billion in term loans maturing January 2015 (Term Loans). Under the Shelf Approval, CEOC would negotiate with lenders to amend and extend portions of this debt when the conditions were most favorable. The Division's action with regard to the Shelf Approval was subject to conditions which required that all transactions be completed by the maturity dates of the respective debt issues, that the transactions not result in an increase in CEOC's net outstanding debt, and that the aggregate annual interest expense shall not increase by more than $120 million for these transactions.

CEOC, by letter petition dated August 20, 2012 and amended on August 21, 2012, now seeks approval to issue up to $750 million in 9% senior secured notes due 2020 (New Notes). In conjunction with the issuance of the New Notes, CEOC intends to seek further amendments and extensions of its Term Loans and Revolver. The proposed amendments include the following:

- Extend the maturity of the Term Loans from January 28, 2015 to January 28, 2018 by converting them to Term Loans, ranked as category B6, bearing interest at LIBOR plus 5.25% (Extended Term Loans). CEOC would then use proceeds from the New Notes to repay up to 50% of the balances on the Term Loans and Extended Term Loans of the extending lenders.

- Convert Revolver commitments maturing on January 28, 2014 into Extended Term Loans and repay up to 50% of the Extended Term Loans of the consenting lenders.

- Extend the maturity of the remaining Revolver commitments from January 28, 2014 to January 28, 2017 in exchange for increases in the interest rate and payment of the undrawn commitment fee.

According to the letter petition and CEOC management, $150 million of the $750 million in New Notes will be used to fund the repayments to lenders listed in the proposed amendments above. Therefore, this $150 million meets the conditions set forth in the Shelf Approval and does not require any further approval by the Division.

Notably, these proposed amendments would be the first transactions completed under the Shelf Approval. While the interest rate of the existing debt being amended or extended could vary, the annual interest expense due to the $150 million in New Notes is only $13.5 million. Thus, even if the debt being amended or extended hypothetically had a 0% interest rate, the $13.5 million increase in interest expense is well below the $120 million threshold set forth in the Shelf Approval.

The net proceeds from the remaining $600 million of the New Notes, after fees and expenses of approximately $12 million, are expected to provide additional cash for general corporate purposes. CEOC management believes that this additional liquidity will allow the company to fund various projects including, but not limited to, potential developments in Boston and Baltimore as well as capital improvements at the existing CEOC properties.

Therefore, this $600 million requires Division approval as a material debt transaction. On August 15, 2012, CEOC provided certain financial forecasts to the Division in connection with the issuance of the New Notes (Forecasts).

The Forecasts reflect CEOC's interest expense, net debt and financial ratios both with and without the issuance of the New Notes. These Forecasts do not make any specific assumptions regarding the use of the $150 million under the Shelf Approval, so no such amend and extend transactions will be reflected in this analysis. According to the Forecasts, cash interest expense under the New Notes would increase by $16.8 million in 2012 and by $50.5 million in 2013. CEOC's net debt is projected to be $28.8 million higher in 2012, reflecting the $16.8 million increase in interest as well as approximately $12 million in fees and expenses related to the issuance of the New Notes. For 2013, net debt is projected to be $79.3 million higher, reflecting the increase in net debt during 2012 plus the $50.5 million in additional cash interest expense to be paid. Under both scenarios, CEOC anticipates having $957.3 million in borrowing capacity available under its Revolver.

The projected increase in net debt under the New Notes is also forecasted to increase CEOC's Senior Secured Leverage Ratio (Leverage Ratio), which measures CEOC's net debt to earnings and is the primary financial covenant under CEOC's credit facility. The Leverage Ratio is expected to be higher by 0.01 in 2012 and 0.05 in 2013 under the New Notes. This projected increase in the Leverage Ratio is minimal and the forecasted ratio would still be well below the maximum permitted ratio of 4.75:1.

OPINION

Although the New Notes are forecasted to increase cash interest expense by $16.8 million in 2012 and $50.5 million in 2013, the proceeds from the New Notes, which would not mature until 2020, would allow CEOC greater flexibility without the need to draw upon the Revolver, which is due to mature in January 2014. It also potentially extends the Term Loans to 2018 and any Revolver to 2017. Therefore, the Division recommends approval of the New Notes, subject to the condition that CEOC must provide all final documents within (10) days of consummation of note issuance.

Please note that this writing is not effective without an accompanying Order approving the Transaction signed by the Director. The Division also will continue its ongoing monitoring of Caesars' financial situation.

Sincerely,

John E. Adams, Jr.

John E. Adams, Jr.
Deputy Attorney General

bc: David Rebuck
Mary Jo Flaherty
Robert Latimer
Christopher Glaum
George Clark
Antoinette Hill